

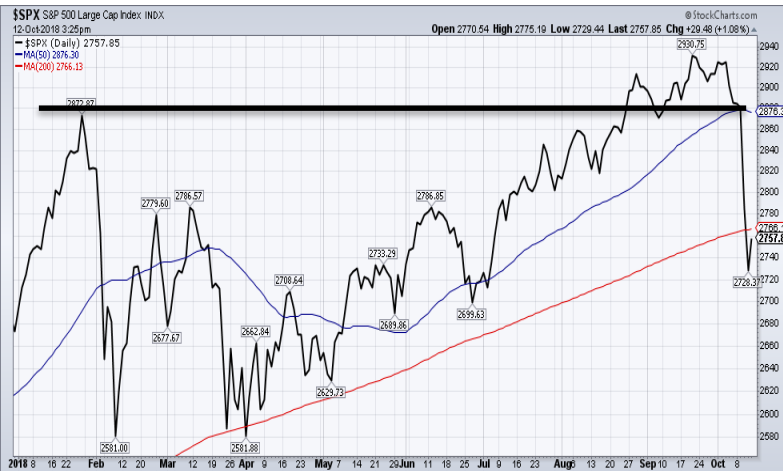
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

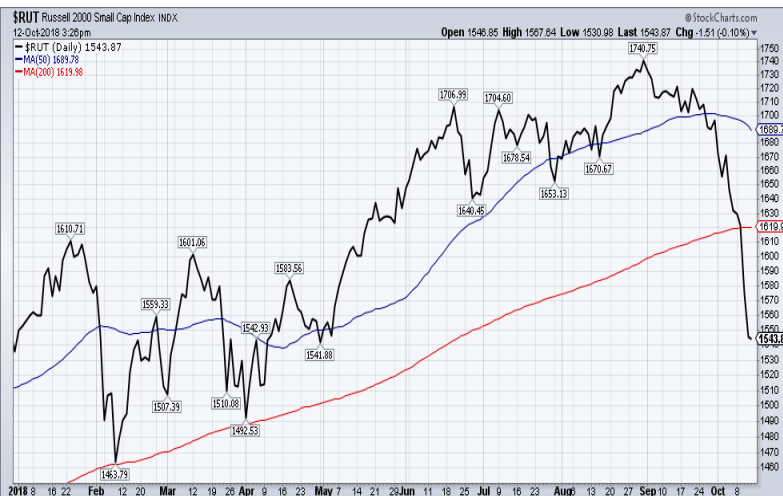
OCTOBER 12, 2018

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



Last week we talked about the critical points that many of the indices were resting on. The S&P had fallen to the January highs, the Russell to its 200 day moving average and the Nasdaq at its 50 day moving average. Well, all 3 failed their respective tests and more. For the first time since 2015, the long-term bull market has been called into question. However, one must remember that corrections are a normal part of a healthy market and despite the harshness and speed with which the market has declined, this bull will not go quietly.



While the S&P needs to recover its 200-day moving average, the Russell 2000 just needs to find a bottom somewhere, anywhere. At the end of August, the small cap index was among the best performers for the year – now it has given up all of its gains for the year. While the market is rallying today, the Russell remains the laggard and is fighting to get in the green for the day. We have been talking for some time about the relative weakness of the small caps to the rest of the market and how something would need to give. Either the Russell would strengthen or the S&P would weaken. We got our answer this week.

Our Point

It is said that the market takes the escalator up and the elevator down. That was certainly the case as a summer's worth of gains were wiped out in just a few days. In many cases, one doesn't know the reason(s) for a particular sell-off until well after it has passed. While there is no specific and apparent reason for the increased weakness this week, it was obvious to those that follow the market closely that something has been amiss for the last few weeks. It was for this reason that we began to take defensive measures over the last 2 weeks. For those that pay attention, the market often tips its hand. We had no idea the drastic falls in the major indices were coming this week, but we did recognize a change in the market environment. Unfortunately, we were not able to avoid the losses completely but we were able to dampen them with our increased cash positions and the hedged funds that we employed. It is not surprising that the market staged a rally today but the more important test will come next week as the market searches for a bottom. There has been much technical damage done to the market and it is likely to take some time for it to be repaired. The next test for the market will likely come in the next week or two on a retest of yesterday's lows. On a positive note, the weakness sets the stage for a healthy 4th quarter rally from much lower prices. We continued to play defense this week selling one of our holdings. We will wait to see what happens next week before adding or removing any additional positions. It looks to be a glorious weekend so try to get outside and play a little.

The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.